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THE WATCH AT HONGKONG

by William Henry Chamberlin

Hongkong, the picturesque rock that rises spectacularly out of the ocean off the South China coast, is also the one clear and definite point in British policy toward China today. Both Labor Government and Conservative opposition maintain that Hongkong should, can and will be defended against any Communist attack from without or from within.

It was announced, late in June, that two additional British battalions are on their way to reinforce the two British and two Gurkha battalions now stationed in Hongkong. The Third Royal Marine Commando Brigade is also being sent from Malta. Thus the garrison of this British Crown Colony is now approximately a full division, or 14,000 men.

This force seems adequate against a prospective enemy deficient in airplanes and heavy artillery. But the serious danger to the security of Hongkong is internal. The overwhelming majority of the 1,850,000 inhabitants of the Crown Colony (which includes a limited area on the mainland, known as the New Territories) are Chinese.

Many of these are refugees from misgovernment, graft, tyranny, civil war and Communism. Ardent Chinese nationalists may cherish bitter memories of the Opium War and argue that Hongkong should revert to Chinese sovereignty. But realistic Chinese, as individuals, appreciate the security of life and property under British rule. Hongkong achieved a remarkable recovery after the desolation caused by war and Japanese occupation, merely because it is an oasis of free trade and honest administration in a desert of squeeze and strangling bureaucracy.

However, the complete freedom with which Chinese may move in and out of the Hongkong area has disadvantages, under present conditions. It is very easy for Communist agents to infiltrate the area. There is no means of keeping an effective check on the many Chinese who, for one reason or another, move back and forth across the border of the Colony.

A Communist effort to take Hongkong would probably start not with an open military attack, but with a series of carefully engineered strikes, boycotts and acts of sabotage. Hongkong experienced a good deal of this sort of thing when relations between Britain and the Chinese nationalists, then under strong Soviet influence, were extremely tense and strained, from 1925 to 1927.

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Some Britons of Far Eastern experience believe that the Colony can cope with internal subversion, as well as with any direct attack not backed up by the naval and air power which enabled the Japanese to overrun the Colony quickly in December, 1941. But Hongkong would be little more than a picturesque seagirt rock if its South China trade were cut off. Maintaining this exposed outpost of empire would be an expensive job under these conditions. Britain is scarcely rich enough to afford an oriental version of the Berlin air lift.

II

This explains the almost pathetic hope in Britain that the Chinese Communists will prove reasonable, in the sense of preferring trade with the West to spreading revolution in the East. Hopes of these British banking, trading and industrial interests, which have grown up with the development of Shanghai and Hongkong as great international ports, are reflected in some press dispatches from these Far Eastern centers.

The Foreign Office, to be sure, is taking a cautious, reserved attitude and is more or less following the same line as our State Department, hoping without much visible reason that something favorable will turn up. There seems to be no intention of rushing into a precipitate diplomatic recognition of the Chinese Communist regime. Even the Soviet Union at present goes through the solemn comedy of pretending to have no relations with the Chinese champions of international Communism.

But Britain has definitely put its national pride in its pocket. Wars have started for less serious reasons than the Chinese Communist bombardment and crippling of the British warship "Amethyst" in the Yangtze River. Measured by the number of lives lost, this was a graver incident than the sinking of the American gunboat "Panay" by Japanese fire in 1937. The Japanese Government promptly apologized and paid an indemnity for the sinking of the "Panay". The British received neither apologies nor indemnity nor, as yet, weeks after the attack, even the release of His Majesty's ship. Some objective publications, notably The Economist, feel that there has been an undue lowering of national dignity in the handling of this matter.

But when Winston Churchill spoke of "the ugly spectacle of Britons being insulted and shot at all over the world" he seemed to strike little fire. Attention was diverted by an attack from another quarter, by the bombing of the British vessel "Anchises" by Chinese nationalist planes attempting to enforce a blockade of Shanghai.

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How little the British community in Shanghai is concerned with saving face is evident from the grovelling tone of the public apology which The North China Daily News, leading British newspaper in Shanghai, recently addressed to the new Communist masters of the city. The newspaper had printed a report, which the Communists denied, about the laying of mines in the Yangtze River. The editor, Mr. Peyton Griffin, addressed the following front page message to General Chen Yi and Mr. Lu Yu, president and vice-president of the Military Affairs Commission:

> "I desire herewith to tender my sincere and humble apologies and to give my assurance that there will be no repetition of such a mistake in the future."

Evidently there is very little humble pie the once haughty British business comunity in Shanghai will not eat, in order to stay on.

III

From a practical standpoint there is little difference between American and British policies in China at the present time. Both governments seem resigned to a fatalistic acceptance of the Communist sweep. Presumably there will be consultation as to possible common action, if and when there is a serious threat to Hongkong or Formosa.

The shock of a forced, or even "voluntary", withdrawal from Hongkong would certainly be felt in Singapore and would place in jeopardy the British hold on Malaya. This peninsula, at the southeastern tip of Asia, is a rich source of tin and rubber and its dollar exports last year exceeded those of the United Kingdom itself.

Formosa represents a ticklish problem, politically and militarily, and is likely to figure increasingly in the headlines in future months. This island, acquired by the Japanese from China fifty years ago and efficiently developed as a large-scale producer of rice, sugar, tea, camphor and other products, was handed over to Chinese administration after the end of the war. It is now the chief stronghold of Chiang Kai-shek. As the Communists have neither a navy nor an air force they cannot capture the island by direct attack. They may be able to stir up discontent from within, because Chinese government in the beginning was so bad that a desperate revolt broke out.

Whether Formosa remains indefinitely a principality of Chiang Kai-shek or whether it passes under Communist rule, this big sland is likely to be a headache for American and British political and military authorities in the Orient. Under Communist rule it would be a dangerous breach in the chain of American air and naval defenses in the Western Pacific. Under Chiang it may well be a base for continued civil war.

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If there is little practical divergence between American and British Asiatic policies, there are important differences in background, motivation and psychology. A strong, friendly, democratic China has long been the pet dream of American foreign policy. The British, by and large, have been more skeptical about the advent of such a nation.

Now that the American dream has turned into a nightmare, with Mao Tse-tung's Moscow-devoted legions moving at will over the vast expanse of China, one sometimes detects a slightly sour "We could have told you so" note in British comment. This note is explained and perhaps justified by the fact that Franklin Roosevelt thought it would be a fine idea to return Hongkong to China. In the light of present circumstances this would have turned out as unhappily as many of the late President's other schemes for the making of peace.

Finally, there is a pronounced mood of apathy toward foreign affairs which now affects the British attitude toward China, and, perhaps to a lesser extent, toward Europe. One sees and hears evidences of this mood on all hands in London. The popular phrase "I couldn't care less" pretty well sums up the average Briton's isolationist feeling.

A veteran British publicist, with considerable experience in foreign affairs, tells me of his poor success in trying to arouse public opinion to the evil and folly of dismantling German industry. "It isn't that people are consciously vindictive, or that they denounce as pro-Nazi anyone who advocates a more reasonable policy", he says. "What one meets is more discouraging, perhaps, than outright hostility. It is a blank wall of indifference." Other British friends and acquaintances confirm this estimate. The Workers' Educational Association, one of the largest adult educational projects in Britain, has dropped courses in international relations because of lack of interest.

This apathy is probably attributable to two causes. First, there is profound disillusionment with the results of the late war. Second, there is a general feeling that the lead in framing policy has passed from London to Washington. American visitors to London often hear such phrases as: "It's your decision now. It's not up to us any more."

Given this widespread attitude, one can hardly expect any great initiative from the British side in formulating Far Eastern policy, beyond the simple decision to hold fast at Hongkong.

Mr. Chamberlin is revisiting Europe and sends this article from London.

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Not Merely Gossip *A Supplement to* Human Events Vol. VI, No. 29

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By Frank C. Hanighen July 20, 1949

BLAIR HOUSE CONFERENCE: That mysterious conference at the Blair House the evening of July 14 was, for at least the following 24 hours, a well kept secret -- which constitutes a record in this town. Many a news bureau in Washington beat the bushes vainly the next day for some clue about the nature of the meeting between the President, his high aides and Members of Congress. We did quite a little fruitless bush-beating ourselves, and the telephone company prospered at our expense. Three days after the event, we consulted a high source who would normally be in a position to know and who -- at least we think so -- would rather remain silent than steer us on the wrong track. He said the conference was not alarming at all, nor was it as important as it seemed. The White House press section handled it clumsily, thus drawing to it unmerited attention. The late hour, which heightened curiosity, was chosen because of the President's heavy day schedule. We gathered, however, that the matter of the conference concerned allocation of strategic raw materials, such as uranium, among our allies.

In our mad race that Friday, buttonholing people on the Hill, we noted one significant fact: many Members of Congress voiced the suspicion that the Blair House Conference might be merely a stage-managed scare, to try to frighten Capitol Hill into voting for the North Atlantic arms appropriation. It was, indeed, quite pardonable that these Congressmen should think so, for only two days before Senator John Foster Dulles had caused quite a stir about "war scares". He said that some members of the delegation to the Paris Conference had wished to use the meeting so as to keep the American people frightened about the Russian danger.

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STEEL STRIKE: President Truman won a political victory last Friday when the steel companies agreed, albeit with reservations, to his proposal for a 60-day "cooling-off" period, which has temporarily postponed the scheduled steel strike. Thus, Truman finessed the Taft-Hartley Act, made big business yield, and staved off something which might have deepened the recession. He will make the most of it in his political propaganda. But that was not the only thought that came to us as we watched, on the ticker, one steel company after another capitulate -- Republic, Bethlehem, finally, U. S. Steel. We could not help reflecting on how different was this picture from that drawn not only by Kremlin propaganda, but also by many Left Wing and Labor spokesmen.

According to the latter, one would expect to see a tight group of "monopolists" (fat, of course; and smoking cigars) united as one man in defying indefinitely both Government and Labor. Actually, they were as divided and probably as friendly to one another as a pack of billy goats. Whoever has heard one steelmaster talk about his colleagues, has received a fine exhibition of rugged and rancorous individualism. This topic reminds us of a little conversation we heard one evening recently between two Washington figures usually labelled "rank reactionary". They were discussing the British economic debacle and the role which inefficient, high-cost industry played in it. They agreed that the British cartel system had for many years contributed to British decline. And then the two "reactionaries" reached their conclusion which was roughly as follows: That the anti-trust legislation is the best ever passed and has done us more good than any other.

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LEFT MYTHOLOGY: To the above footnote on the mythology of the Left, we would like to add another. A former Communist, now in a great state of reform, was commenting with wonder on the Hiss trial. He said: "I remember back in the early Thirties when I was in the Party. We had a stock picture of every trial involving a Communist or even a 'liberal'. For us it was always inevitably a one-sided affair in which all the cards were stacked against the poor radical. We screamed that Big Business controlled the judges, packed the jury; and that it had high-priced brilliant legal talent while the poor radical had only a flea-bitten lawyer who got no fee. Well, look at the situation today. Hiss, who certainly is left-of-center, had the high-priced lawyer. John W. Davis endorsed Hiss. The mighty powers of Big Government were sympathetic and two Supreme Court justices appeared in his behalf. The judge was selected God knows how and certainly wasn't in the Government corner. There was something funny about one juror who favored Hiss. And the prosecutor was just a run-of-mine Department lawyer, hardly a strong competitor against a trained seal like Stryker. Most of the time it looked like it was Chambers, the anti-Communist witness, who was on trial, not Hiss. Yes, it's quite a different picture from that given by Daily Worker propaganda."

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"MATURE ECONOMY": It has been remarked that the principal assumption of Mr. Truman's economic report of the last week was that Government must constantly support the economy. The Wall Street Journal says that the report is "saturated with the belief" that a "free economy cannot walk without crutches", supplied by the doctors in Washington. That paper points out that Truman heretofore based his appeals for Government action on temporary grounds, with the explanation that when things get back to "normal", then "the crutches will be thrown away". Today, he evidently thinks that the economy is permanently crippled and that it must be -- as the Wall Street Journal comments -- "ever supported by a benevolent and paternalistic government". This sounds like some music we have heard before. Apparently the economic advisers who wrote the report for Truman have returned to -- if, indeed, they have ever abandoned -- a lovely old theory called "our economic maturity".

That thesis indeed was an interesting brain-wave of the late Thirties, when we were struggling in the Roosevelt pre-war depression. It received its fullest expression in the hearings of the TNEC (Temporary National Economic Committee). Its substance ran briefly as follows: Formerly youthful and virile, the American economy had become middle-aged, "mature", because the frontier had disappeared, the population growth was receding, and technology was producing no more revolutionary inventions (like the auto) to revivify the economy. The conclusion of this sad picture was that the economy was "senile"; it could not support itself and therefore must lean on the Government for help and direction. (Those who came to this conclusion, of course, were not exactly averse to assuming the direction.)

The London Economist at the time greeted the theory with amused skepticism. But it remained for an American economist (not in Government, it should be said) to riddle the theory with grape and canister in his book entitled The Bogy of Economic Maturity. George Terborgh showed that there was no historical or statistical evidence to co-relate demographic expansion and economic progress. As for the frontier, it had disappeared a half century ago, and had been followed by several decades of unexampled prosperity. Finally, he demonstrated statistically how new inventions have historically kept pace with the rise of investment, but did not lead it. It was a fine performance. A couple of years ago when Government economists were worrying about inflation, we mischievously asked one of them what had happened to the economic maturity theory. He replied hastily, "long discredited", and rushed

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back to his warnings about "boom and bust". But, now, with the mid-year economic report, the Keyserlings have apparently reversed themselves and are again proceeding on the theory that our economy is permanently debilitated.

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GERMAN DOCUMENTS: The State Department release of captured German documents was a high light of the week end, but we can't say that all papers and wire services did an entirely brilliant job. A casual reader of many accounts in the press might get the impression that the documents revealed, above all, that former Ambassador Joseph P. Kennedy was anti-Semitic, because German Ambassador Von Dirksen quoted some alleged remarks of Kennedy about the Jews. We doubt that Kennedy ever said those things, and one good reason is that Von Dirksen incorrectly quoted the American Ambassador on other matters. Joe Kennedy would never have said that his father was Mayor of Boston. It is possible that Von Dirksen was simply trying to tell Hitler what he (Von Dirksen) thought the Fuehrer would like to hear.

The documents, however, contain much that is really revealing. One paragraph in the editors' introduction suggests that the Nazi Government never did have a well-calculated plan for world conquest -- as our war propaganda so often asserted and as the ineffable Nuremberg prosecution claimed. The editors say, "Readers of these documents will soon become aware of one peculiarity of German diplomacy under Hitler: the fact that for a long period of time there might be not one, but several, German policies, and that the adherents of one policy might be in partial or complete ignorance of what adherents of other policies are doing." The preface cites several instances and then goes on to remark, "It is necessary, therefore, to bear in mind that, at least until Hitler had spoken, and not always even then, it was not safe to assume that any line of policy or any expression of opinion represented settled German policy." Mr. Paul W. Ward wrote one of the best analyses we have seen in any daily newspaper in the Baltimore Sun (July 17). He points to this paragraph and says: "The Nuremberg trial theory that Hitler and the rest of the top Nazis co-operated in a long-planned and carefully co-ordinated conspiracy for war and world conquest received a setback" in these documents. Mr. Ward chose as the most significant revelation the documents which describe the Vatican's bitter diplomatic war with Hitler.

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ROBESON: Recently, we strolled into the hearing room of the House Un-American Activities Committee and found Mr. Manning Johnson, a Negro trade union official and former Communist, on the stand. His most striking testimony, which turned the press table into a hive of activity, concerned Paul Robeson. When Johnson was in the Party, he considered Robeson a member of the Party, and a highly valuable man for affecting the intelligentsia, as well as for going on "international missions" for the Party. Robeson's aspiration, according to Johnson, was to be the Communist leader of the Negroes, to be -- as he put it -- "the black Stalin". It was interesting to hear this testimony about a man long considered pro-Communist, especially when it came from a former colleague and a member of the Negro race.

A few days later, we recalled what Mr. Johnson had said when we read the account of proceedings at the meeting of the so-called Bill of Rights Conference in New York (July 17). There, Mr. Paul Robeson, besides mouthing the usual Communist slogans, engaged in an assault on the Bill of Rights itself. According to the New York Times, Robeson led the fight against a resolution which called for restoration of civil liberties to the Socialist Workers Party, a Trotskyist organization. Eighteen members of that party are in jail, convicted under the Smith Act. This political group has no particular importance save as it causes trouble for the Communists; and the Kremlin wages unceasing war against this dissident sect of Communists. Mr. Robeson cried, "Would you give civil rights to the Ku Klux Klan?" And the delegates voted down the resolution to give civil rights to Trotskyists.

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Book Events

Out of My Life and Thought, by Albert Schweitzer; translated by C. T. Campion; postscript by Edward Skilling. New York: Henry Holt and Company. $3.00. Reviewed by J. M. Lalley.

Between the first publication of this autobiography and the present edition of it, Dr. Schweitzer has become an international celebrity. His defense of the power and importance of human thought against the anti-intellectual temper of the times was the high point of the recent ceremonies at Aspen, Colorado, in celebration of the two hundredth anniversary of the birth of Johann Wolfgang von Goethe, who, as Dr. Schweitzer testified in a similar address many years ago at Frankfort, has been his exemplar and inspiration. Some of Dr. Schweitzer's more impassioned admirers have not hesitated to call him the greatest man now living; and that he is by any measure a most remarkable person can hardly be disputed. He is a theologian of great influence, the author of innumerable treatises, an eminent musician and musicologist, an authority on the history and construction of organs and the foremost modern interpreter of the work of J. S. Bach; yet the last forty years of his life have been spent, except for occasional visits to Europe, as a medical missionary in the jungles of French Equatorial Africa.

He was born in Upper Alsace a few years after the Franco-Prussian War, the child of a Protestant pastor in a predominantly Catholic community. His boyhood appears to have been a singularly interesting and happy one. His musical interests and aptitudes manifested themselves very early, but by his own testimony he was not otherwise an exceptional student. Yet after taking his degrees in philosophy and theology at the University of Strasbourg he was appointed, while still in his twenties, the principal of a theological college. His thought, however, had already begun to be darkened by a preoccupation with the mystery of human suffering and by the sense of spiritual enervation in the civilization that had nourished him. In his thirtieth year while on a visit to Paris he decided what his life work was to be. He had received, as he puts it, in a world where misery is the common lot, much undeserved happiness; now he felt that he must give something in return. He chose the vocation of medical missionary because it would permit him to give himself in work rather than in talk.

Meanwhile, Dr. Schweitzer had created a mild stir in both Protestant and Catholic theological quarters by two works of Christology and New Testament exegesis, which had given some affront to orthodox minds in both groups. Dr. Schweitzer's Christianity seems at this point to have corresponded very closely to the Catholic variety of modernism, which was in effect an effort to reconcile revelation with the prevailing principles of scientific inquiry. In particular he seems to have influenced the English Father Tyrrell, whose views brought down on him the anger of his Jesuit superiors and of Rome. Dr. Schweitzer's modernism ultimately took shape in the ethical system that he calls Reverence for Life, which extends the principle of love beyond humanity to animals and even plants. He believes the needless cutting of a flower or the wanton destruction of a tree to be as sinful in its way as homicide, and he has spoken of his remorse for the billions of bacteria he has been obliged to destroy in his business of healing the sick. This, he tells us, is the "ethic of love widened to universality" by the power of reflection. For it is by reflection we discover that the concepts of the value of human life must lead to a recognition of the value of all life. To deny this is to open the way to distinctions between worthy and worthless categories of humanity. Thus we may perceive in Dr. Schweitzer's philosophy the extreme reaction to the doctrines of materialism and pragmatism which have found fulfillment in an age of universal murder.

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By Bertrand de Jouvenel July 20, 1949

THE BRITISH CRISIS: Britain is shaken by its third economic crisis since the beginning of 1947.

The first was due primarily to miscalculation on the part of the then Minister of Fuel. Because of Mr. Shinwell's erroneous forecasts of coal production and consumption, the activities of the nation, unfavorable weather aiding, were brought to a temporary standstill in February, 1947.

The Dalton, or "convertibility", crisis occurred when that overconfident chancellor of the Exchequer deemed it possible to keep promises honorably made. The remains of the post-war American loan were swept out in the brief spell of pound convertibility during July and August of 1947.

Since then it had seemed that England was doing well and the boastful statements of Undersecretary Mayhew at the end of last February seemed justified. It was true that the level of industrial production had risen by more than one fourth over that of 1938, and that the volume of exports had risen by more than half. Indeed the indexes for the first quarter of 1949, measured against 100 for 1938, were 131 for industrial production, 157 for volume of exports. It seemed true also that Britain was reaching a balance of international payments.

The weak spot then seemed to be only that surplus earned in the sterling area, or in other soft currencies, could not be drawn upon to fill the dollar gap. But this gap appeared to be shrinking. It was only about 681 million dollars for the last half of 1948, and that amount was almost covered by contemporary Marshall Plan aid (592 millions).

In the first quarter of 1949, the gap was 330 millions, almost exactly covered by 326 millions of Marshall aid. In fact, drawing on minor exchange sources, Britain was able to replenish her central gold and dollar reserves to the amount of over 80 million dollars in the last quarter of 1948, and to the amount of 56 million in the first quarter of 1949. The picture was promising and Britain said she could get along with less American aid.

But since March, and very rapidly, the situation has tragically deteriorated. The dollar deficit has risen to 157 million pounds (or 633 million dollars) in the second quarter of 1949. That is not far from twice the amount of current Marshall Plan aid -- 85 million pounds or 342 million dollars. Reserves are therefore being exhausted at an alarming rate.

It is believed all over the world, and in England itself, that the pound cannot now be much longer maintained on its precarious four-dollar perch, and this feeling itself increases the drain, there being always means whereby financial opinion can translate itself into facts.

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WATERLOO FOR PLANNERS: These events throw a sharp light upon the fatal and ever-recurrent unpreparedness of governmental planners. Government experts had eagerly expected a fall in primary prices, which would make British imports less costly. The fall has come and is now seen to be detrimental, for as much as four fifths of sterling bloc exports to the dollar area are primary products! Rubber and jute alone accounted for nearly 30 per cent. The fall in the value of these exports brings disaster to Britain as the banker of the sterling bloc, while on the other hand English imports are not cheapened, due to the long term contracts upon which the Labour Government prided itself.

The rapid shrinkage of British exports to the dollar area is only one factor in the situation, but one which is full of meaning. It has focused attention on

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the exaggerated cost of British products, now being priced out of most really competitive markets. Nor is this a mere "appearance" due to the artificial value of the pound, a logically unsound notion if one stops to consider it. The financial editor of the Manchester Guardian asserts that "current British prices contain probably as much as 20 to 25 per cent water", while the London Economist brings out the striking fact that prices are much higher than pre-war in "real" terms; that is, in number of weeks of net wages: the cheapest motorcar up to 55 weeks from 39, the cheapest man's suit up to 7 weeks from 5 and the standard Council house up from 112 to 213 weeks!

This is economic retrogression and it certainly is disappointing to believers in Socialism that the condition of the worker should thus be worsened in a manner which no amount of oratory can any longer conceal. It has been argued in favor of the Labour Government that it averted social unrest. Now, unrest is boiling up in most disturbing fashion at the very moment when continental countries are beginning to establish a good record in this most important realm.

It was more than unhappy coincidence, from the British viewpoint, that as Sir Stafford Cripps announced new rationing, in London, the French people were everywhere making the occasion of Bastille Day (July 14) a good excuse for rejoicing over the slackening of State controls.

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BRITAIN AND FRANCE COMPARED: No man in his right mind would take the post-war French economy as an example of a liberal economy. Indeed it was just as controlled as that of Britain, only less efficiently, up to the end of 1947. Moreover, a greater part of national assets are nationalized in France than in Britain, two fifths of the national assets it is currently said in Paris. And this part of the economy is a heavy burden on the free sector, which must alone carry the bulk of taxation and cover the losses of the nationalized sector.

But in the last two years France has been moving away from collectivism and towards freedom. An evolution slow at first, but it gathered speed in the René Mayer era at the beginning of 1948 when the free-gold market was established, among other reforms. If we take 1947 as base year, we find French industrial production improved 31 per cent to England's 20 per cent and the volume of French exports improved 65 per cent to England's 44 per cent. Even more striking is the advance of French production from the first quarter of 1948 to the first quarter of 1949: 15 per cent to England's 7 per cent.

Granted that it is easier to move up fast from lower levels, still the levels already reached in 1948 by both countries make a comparison acceptable. And after French industry had been despoiled by occupation, starved of materials and brought to a standstill in 1944, it is no mean sign of recovery that it should now stand at more than 25 per cent above the 1938 level, and even above the 1929 level.

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MOVING FORWARD FROM SOCIALISM: The German comeback consequent upon the monetary reform there is of course even more striking. At the recent conference of the Mont Pelerin Society this was ascribed to the liberal economic policies coupled with the name of Dr. Erhard, who has risen from directing a Bavarian institute for consumer research to the post of Director of Economic Affairs. This conference in Switzerland gave your correspondent an opportunity to meet Dr. Veit, Governor of the Bank of German States; who seems a most accomplished economist.

Indeed, almost everywhere in Western Europe the levers of economic and financial government are going back into the hands of men who understand economic phenomena and who, understanding them, trust to economic motives instead of seeking to discipline economic procedures by means taken over from military discipline and war propaganda. Thus the example of liberalism first set by Belgium, with outstanding

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results, is now being widely followed. Britain and Sweden seem to remain the strongholds of Socialist planning. And it is characteristic that both experience mounting difficulties.

All over Western Europe the wind blows for economic freedom. If not the gentle breeze of opinion then, it is to be feared, the hurricane of facts may alter England's present course. Such is the continental eagerness for this alteration that it tends to make commentators brutally unsympathetic to Britain's present plight.

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FREEDOM WITHOUT COMPETITION: While the tide unquestionably runs away from planning, it remains highly doubtful whether a true liberal spirit is to be found in Europe. Many European employers tend to think of freedom from State control as being nothing more than liberty to establish their own checks on competition.

Certainly both the protectionist spirit and the idea of an industry "organized to prevent undue and ruinous competition" are strong factors today. An example of the protectionist tendencies is provided by the campaign of French textile manufacturers against the proposed customs union with Italy. As to "organization of industry", that is a by-word. I have it on good authority that cotton manufacturers in France could be cheapened by 25 per cent without loss to the industrialists: but no move is made in that direction.

It is probably not impossible for the American reader to imagine a state of affairs in which, without any actual collusion, industrialists act as one in preserving current prices. This is in fact the normal behavior of European employers, well content with a mediocre volume of sales and a high profit margin; unwilling to start a price-struggle which might well go against them; anxious to provide in advance for the possible wage demands which may be forced upon them.

Such behavior clamors for the destruction of trade barriers and also the advent of new competitors from inside. But the latter is to a large extent precluded by the lack of venture capital.

Why should anyone start a new business when it is far cheaper to buy up in the stock market shares of going and rich concerns? Were one to capitalize the value of continental industry on the market quotations, it would become clear that the equity is very greatly undervalued. All assets can be bought for half, a third, or a quarter of the cost of reproduction. Who then is going to create new assets?

Only the State at the taxpayer's expense. This is the true meaning of the national investment programs. And there is the major problem: capitalism is subjected to political controls that prevent the system from performing its main function.

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FRANCE AND GERMANY: France has now decided to help Germany back to her place among the nations. As French "uncle" to the new German government, Premier Queuille and Foreign Minister Schuman have made the significant choice of André Francois-Poncet. He was Ambassador to Berlin from September, 1931, to the morrow of Munich, sought to save the Weimar Republic, warned against Hitler and yet managed to be appreciated even by the Fuehrer!

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FOOTNOTE ON NATIONALIZATION: Nationalized industries are coming under a heavy fire of criticism in France. Although the shareholders were practically despoiled, and the yearly payment to them is a paltry charge upon the accounts of these industries, they run at a tremendous loss. Money has to be pumped into them continuously and in ever increasing quantities by the Treasury and through State banks. The working capital and the reserves taken over by the State when it was nationalized have been entirely dissipated.

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This is not surprising since two objectives were assigned to the new managers: first they were asked to give a good time to the workers in these industries, almost to the point where they were to be made into comfortable clubs for those belonging to them; second the managers were instructed to provide the services of these industries at low cost to the public.

They dutifully increased their expenditures and kept their prices abnormally low. Consequently they must call upon the State banks to provide them with credit even where they should be using their own capital, which they have lost, and they must call upon the Treasury to cover their deficit, disguising most of it as "investment", which in most cases it isn't at all. The necessary funds are provided by the francs which the Government obtains by selling to the French the goods given to it by the American Government and paid for by the American taxpayer. This is technically called the franc counterpart of Marshall Plan aid.

I would not have the American reader believe that any Frenchman is content with this abnormal state of affairs. As it comes to be understood it is felt by all, irrespective of party, to be morally wrong. There was recently an excellent discussion of this situation in a committee room of the French House and the Socialists, no less than the other members, said that it smells to high Heaven. But reform presents great social difficulties as it means raising prices for the consumer and putting some pressure on the workers in nationalized industries.

Such things are achieved by market pressure in a free economy but when they have to be done by political decisions the process demands great courage. It is already an important advance that the French are condemning this use of American aid.

* * *

TWILIGHT OF REPRESENTATIVE GOVERNMENT: Christopher Hollis, author and publisher, sits in the British House of Commons, a promising young Conservative. In a striking book he wonders: Shall Parliament Survive?

With the State attempting to control all of national life, bills are so numerous and so technical that the individual member cannot form an individual opinion. Nor dare he take an individual stand, as the Party will punish him by naming a more docile candidate for his seat, and the member nowadays, especially in the Labour Party, is dependent upon his job both for income and social status.

Hollis' description of the political regime as it is cuts right through the twaddle of textbooks on Constitutional Law. The Cabinet, spearhead of the victorious party, is not bothered by the House of Commons, where the subordinate officers of the party stolidly support all the measures introduced by the Administration. These measures are such as seem desirable to the small Party aristocracy, and/or are deemed necessary or acceptable by the permanent State officials, as an Administrative aristocracy. Meaningful and decisive discussions are carried on in the inner councils of the Party, in the Cabinet, and among the Government departments and public boards. These last are perhaps the most important: they are kept secret from the public and the press is held to be highly indiscreet if it brings to light the views and arguments expressed by the various department planners.

A French economist and distinguished official, Alfred Sauvy, has just published a book which dovetails with that of Hollis. Sauvy argues for the publicizing of interdepartmental discussions. Certainly something has to be done, for the greater the concentrated power of the State, the more inadequate Parliamentary control turns out to be. And the more steps are taken in the name of "The People", the less ordinary citizens know about why and by whom the decisions were made.

NOTE: In answer to many queries, I must make it clear that none of the French books on labor relations quoted in my last letter have been translated. Also, I should say that the last paragraph but one dealt like the last with Dubrueil and not as the former with Jousset.

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